



Drinking Water State Revolving Fund



Annual SRF Performance Report
State Fiscal Year 2001

Prepared by
Drinking Water Unit
Office of Water
EPA Region 10

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Introduction

The following is a general summary of the Drinking Water State Revolving Fund (DWSRF) Program established by the Safe Drinking Water Act (SDWA) Amendments of 1996. It describes how appropriated funds, including Federal Fiscal Year 2000 funds¹, were utilized, and also reports on the status of the DWSRF program in Region 10 through June 30, 2001.²

This report was prepared by staff of the Region 10 Drinking Water Unit and represents the best available information obtained from DWSRF capitalization grant applications, data from EPA and state reporting systems, discussions with DWSRF state personnel, and on-site annual reviews.

The success of the DWSRF program in Region 10 hinges almost entirely on the efforts of our state partners. We recognize the absolute importance of a healthy partnership with our state partners in carrying out this important mission; that of helping to ensure the provision of safe drinking water. Since the DWSRF program was introduced in Region 10, Drinking Water Unit (DWU) staff and the DWSRF staff in the four Region 10 states have worked hard to implement the program. To date, all states have successfully established and implemented their DWSRF programs. Below are just a few of the key players in this ongoing effort.

Table I: Key Players in Implementation of Region 10 DWSRF Program			
Location	Organization	State Contacts	EPA Contacts
Alaska	Department of Environmental Conservation (ADEC)	Mike Burns	Bill Gissel, Project Officer
Idaho	Department of Environmental Quality (IDEQ)	Bill Jerrell	Rick Green, Project Officer
Oregon	Health Division (OHD) Oregon Economic and Community Development Department (OECDD)	Dave Phelps Betty Pongracz	Harold Rogers, Project Officer
Washington	Department of Health (DOH) Department of Community, Trade and Economic Development Department (CTED)	Chris Gagnon John LaRocque	Margo Partridge, Project Officer
Regional Office	Office of Water, Drinking Water Unit		Rick Seaborne, DWSRF Coordinator

¹ At the time this report was prepared Oregon had already been awarded its FFY2001 allotment; the other three states had not.

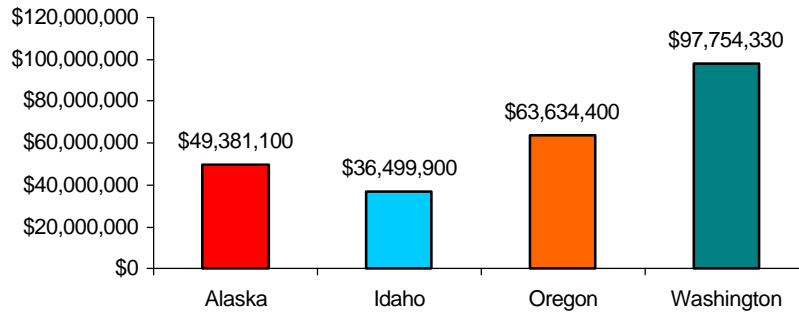
² The time period chosen to base this report on is significant, because it is the end of a State Fiscal Year (SFY). By congressional intent, the DWSRF program is delegated to states. The use of SFY instead of FFY is an attempt to heighten recognition of this. This end date also happens to be the same time period to be covered by the DWSRF Report to Congress to be prepared this fall and provided to legislators early next calendar year.

Background

The Safe Drinking Water Act (SDWA) amendments of 1996 established the Drinking Water State Revolving Fund (DWSRF) program. The DWSRF was intended to assist public water systems with financing the infrastructure costs of achieving or maintaining compliance with SDWA requirements, and to protect public health objectives of the SDWA. The DWSRF is patterned after the highly successful CWSRF program, which, under the Clean Water Act since 1988 has provided more than \$35 billion in financing for wastewater infrastructure needs. The DWSRF program differs from the CWSRF in that it allows up to 31% of each capitalization grant to be set aside for State programs, including source water protection, capacity development, operator certification, and technical assistance, while the balance is to be used for making drinking water infrastructure loans. Since program inception the DWSRF has provided more than \$3 billion in assistance for drinking water infrastructure.

Congress intended that the DWSRF program be fundamentally a program of the State. Therefore, it is our philosophy that each State be given considerable flexibility (with minimal Federal interference) to decide program design, and to direct funding toward its most important public health protection needs. The following report is an overview of the challenges faced and the accomplishments made by the Region 10 DWSRF program through the end of State Fiscal Year 2001.

Chart 1: Region 10 DWSRF Cap Grants Awarded through SFY01

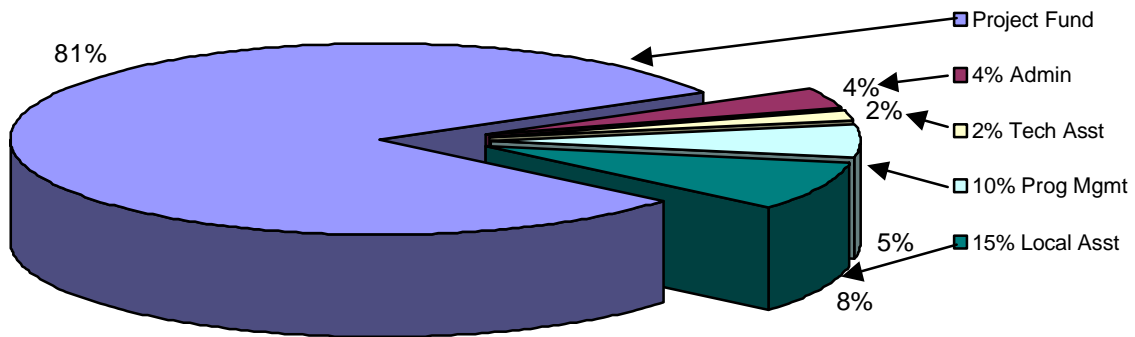


Region 10 DWSRF Program Summary

Since the first Federal Fiscal Year (FFY) 1997 DWSRF grants were awarded, nearly a quarter of a billion dollars in federal funds has been provided to Region 10 states for the DWSRF program. Chart 1 above shows how much has been awarded per state. Table II below shows the state-by-state funding breakdowns, as well as the specifics on how much of each capitalization grant has been set-aside.

Table II: Summary Status of Region 10 DWSRF Programs							
State/FFY	Grant Date	Grant Amount	Set-Asides Taken				
			Admin. (4% max.)	Tech. Asst. (2% max.)	Prog. Mgmt. (10% max.)	Local Asst. (15% max.)	Set-Aside Totals
AK/97	09/29/97	\$24,138,000	\$1,072,800	\$355,000	\$0	\$89,947	\$1,517,747
AK/98	09/16/98	\$10,022,300	\$293,612	\$0	\$0	\$2,682,000	\$2,975,612
AK/99	09/03/99	\$7,463,800	\$298,552	\$0	\$0	\$0	\$298,552
AK/00	08/07/00	\$7,757,000	\$310,280	\$0	\$0	\$0	\$310,280
AK Totals		\$49,381,100	\$1,975,244	\$355,000	\$0	\$2,771,947	\$5,102,191
ID/97	09/22/97	\$14,157,800	\$566,312	\$283,156	\$0	\$1,557,358	\$2,406,826
ID/98	08/04/98	\$7,121,300	\$284,852	\$142,426	\$106,713	\$712,130	\$1,246,121
ID/99	08/03/99	\$7,463,800	\$298,552	\$0	\$746,380	\$746,380	\$1,791,312
ID/00	08/22/00	\$7,757,000	\$310,280	\$155,140	\$775,700	\$1,163,550	\$2,404,670
ID Totals		\$36,499,900	\$1,459,996	\$580,722	\$1,628,793	\$4,179,418	\$7,848,929
OR/97	06/19/98	\$18,920,500	\$626,381	\$378,410	\$180,000	\$2,081,326	\$3,266,117
OR/98	01/06/99	\$10,567,800	\$422,712	\$211,356	\$272,230	\$266,421	\$1,172,719
OR/99	08/03/99	\$11,076,100	\$443,044	\$221,522	\$140,198	\$366,097	\$1,170,861
OR/00	01/25/00	\$11,511,200	\$460,448	\$230,224	\$611,600	\$1,047,204	\$2,349,476
OR/01	11/09/00	\$11,558,800	\$462,352	\$231,176	\$611,600	\$1,005,747	\$2,310,875
OR Totals		\$63,634,400	\$2,414,937	\$1,272,688	\$1,815,628	\$4,766,795	\$10,270,048
WA/97	05/12/98	\$31,145,900	\$1,245,836	\$622,918	\$3,114,590	\$1,724,295	\$6,707,639
WA/98	04/12/99	\$19,169,100	\$766,764	\$383,382	\$1,916,910	\$500,000	\$3,567,056
WA/99	08/03/99	\$20,091,100	\$803,644	\$401,822	\$2,009,110	\$2,271,100	\$5,485,676
WA/00	09/15/00	\$20,880,400	\$835,216	\$417,608	\$2,088,040	\$3,132,060	\$6,472,924
WA/01	01/23/01	\$6,467,830	\$834,559	\$417,279	\$2,086,397	\$3,129,595	\$6,467,830
WA Totals		\$97,754,330	\$4,486,019	\$2,243,009	\$11,215,047	\$10,757,050	\$28,701,125
Region 10 Totals		\$247,269,730	\$10,336,196	\$4,451,419	\$14,659,468	\$22,475,210	\$51,922,293

Chart 2: Region 10 DWSRF Distribution by Funding Type



Project Fund

Of the nearly \$270 million in state allotments to the Region to date, \$218 million (81%) has shifted to the Project Fund for use as drinking water infrastructure loans (see chart 2 above). As shown in the two charts below, with these funds plus their own state matching funds, Region 10 states have signed loans for 156 projects totaling more than \$160 million.

Chart 3: Region 10 DWSRF # of Loans by State through SFY 2001

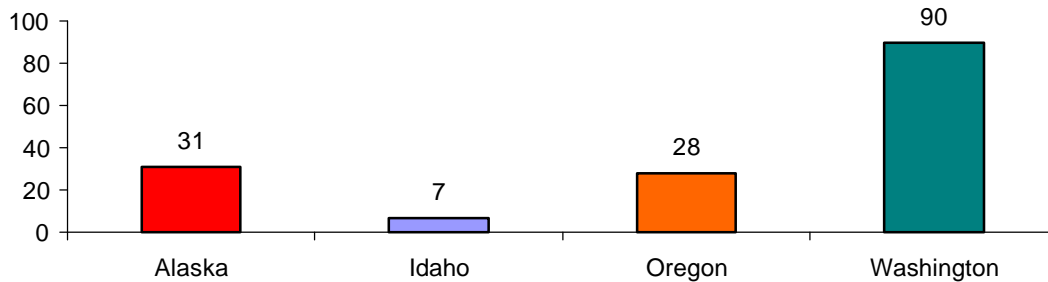
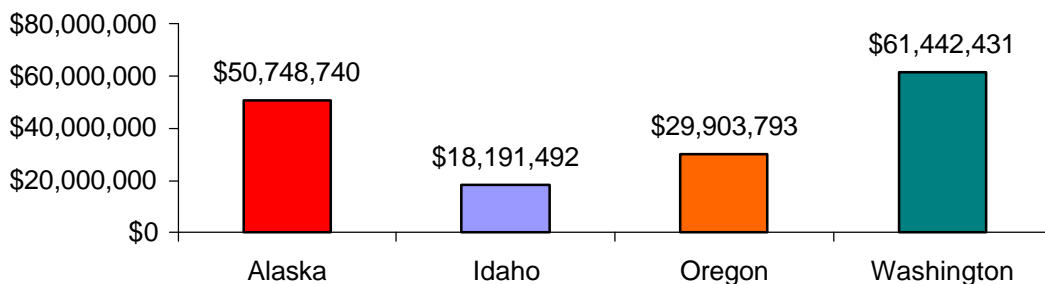


Chart 4: Region 10 DWSRF \$ Amount of Loans by State through SFY 2001



Small Systems

One of the primary purposes of the enabling legislation for the DWSRF program was to make affordable infrastructure funding available to the small systems likely to be hardest hit by the SDWA requirements. Indeed each state is required to provide a minimum of 15% in loan funding each year to such systems. Charts 5 and 6 show the results for each state in providing this type of funding. As can be seen, virtually all of the funding in each state but Alaska (and Alaska has made 44% of its loans to small systems) has gone to systems with a population under 10,000.

Chart 5: Region 10 DWSRF # of Loans for Small Systems

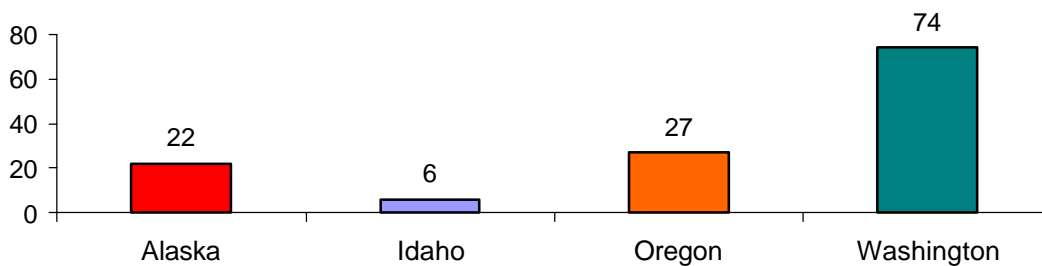
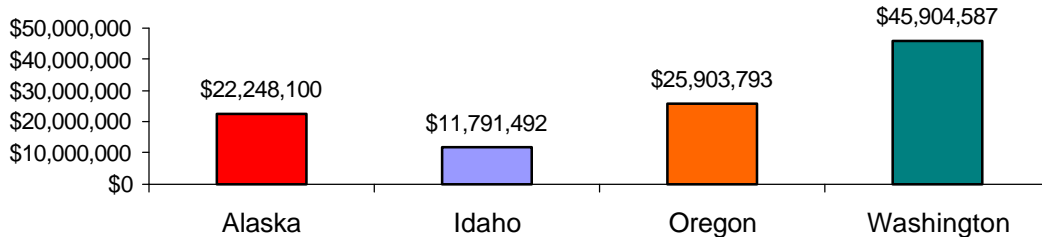


Chart 6: Region 10 DWSRF \$ in Loans for Small Systems



Private Systems

Another objective of the DWSRF is to provide funding for private systems. The two charts which follow illustrate the success that some states in the Region, in particular Washington, are having in providing low interest loans to privately owned drinking water systems. Nationally, and in this Region as well, some states previously prohibited funding privately owned water systems. However, Alaska and Oregon recently passed legislation allowing funding of privately owned systems. Thus the level of loan activity for this type of system is expected to gradually increase.

Chart 7: Region 10 DWSRF # of Loans for Private Systems

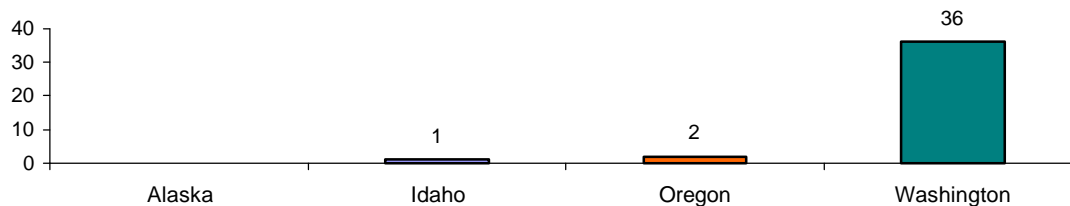
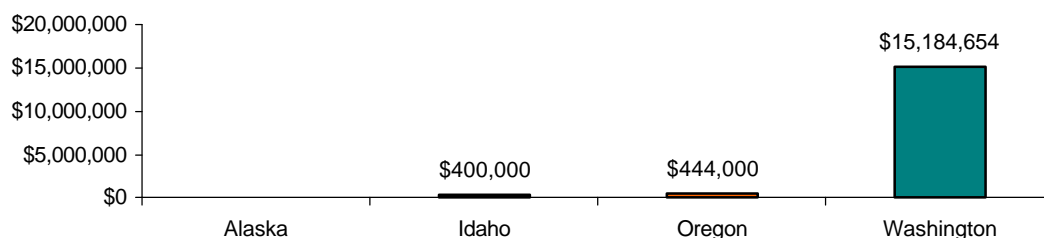


Chart 8: Region 10 DWSRF \$ Amount Loans for Private Systems



State DWSRF Implementation Highlights

Alaska

Alaska had somewhat of a head start with DWSRF implementation because the same Department of Environmental Conservation (ADEC) staff were already experienced with managing a robust CWSRF program. ADEC staff utilize a highly efficient loan tracking database for both SRF programs. Both SRF programs undergo a separate independent financial audit each year, the first state in Region 10 to fully and voluntarily comply with EPA's audit strategy for both SRF programs. Despite the many challenges of trying to provide infrastructure financing for drinking water projects in Alaska, to date the DWSRF program has accumulated the Region's second highest dollar amount of signed loans at \$51 million, or 32% of the Region 10 total. Here is an example of a project that received funding through Alaska's DWSRF program.

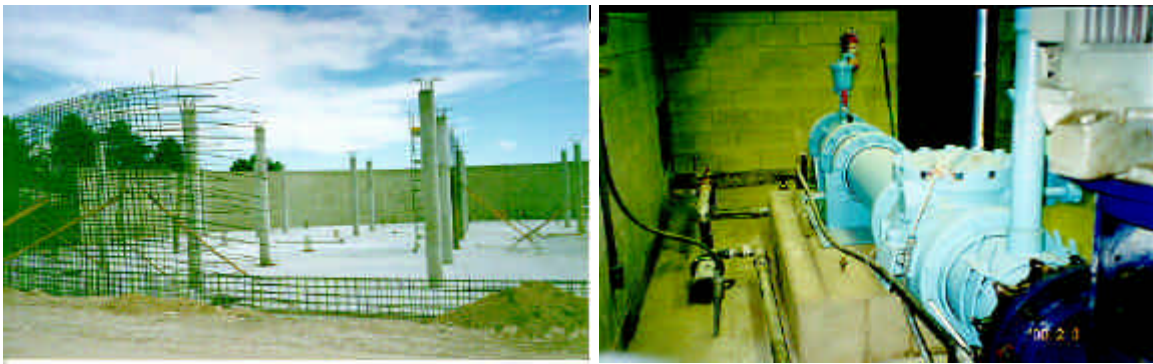


Nome Joint Utility Systems (NJUS) Utilidor Phase II project

Nome Joint Utilities Systems has completed a \$4.2 million utilidor (utility corridor) replacement project in the City of Nome. The project is part of a comprehensive effort to replace over the next five years the 1960's era, deteriorating wooden utility tunnels with a new buried piping system. The state grant was from the Municipal Matching Grant Program and the loan came from the Alaska DWSRF.

Idaho

Like Alaska, the Idaho Department of Environmental Quality runs its DWSRF program with the same staff that oversee the CWSRF program. Both SRF programs are well managed and receive a thorough and complete financial auditing by the Idaho State Legislative Services Office staff auditors every year. Due to a variety of factors, to date the Idaho DWSRF has secured only seven loans in the amount of \$18 million, which is the lowest loan level in the Region. Idaho continues to actively promote the loan program, and has taken steps to make the DWSRF more attractive, such as recently reducing some loan rates in order to increase the pace of loan issuance. Below is a description of a project funded through the IDEQ DWSRF program.



The City of Twin Falls received a \$5.2 million loan to drill new wells, install new booster pumps, transmission lines, and increased storage capacity. The photos above show the foundation being laid for the finished water storage tank and a newly installed pump.

Oregon

Oregon's DWSRF is jointly run by the Oregon Health Division (OHD), and the Oregon Economic and Community Development Department (OECDD). Oregon was one of the few states nationwide that volunteered to help pilot test the DWSRF National Information Management System (DWNIMS). DWNIMS is used for many purposes, among them preparing reports for Congress on how well the DWSRF is being implemented. Although Oregon's DWSRF does not receive a separate independent financial audit each year, the program is well managed and financially sound. In addition, their program will be added to the list of states to be audited by EPA's Office of Inspector General. Through the end of SFY 2001, the Oregon DWSRF program has provided a total of 28 loans in the amount of \$29 million, or 18% of the Region 10 total loan volume.



The City of Vale, Oregon received a DWSRF loan, which was combined with a Community Development Block Grant, to construct a new reservoir (left), and construct/upgrade a booster pump station, a disinfection system, a telemetry system (right), drill four new wells with pumps and motors, and replace leaking transmission lines.

Washington

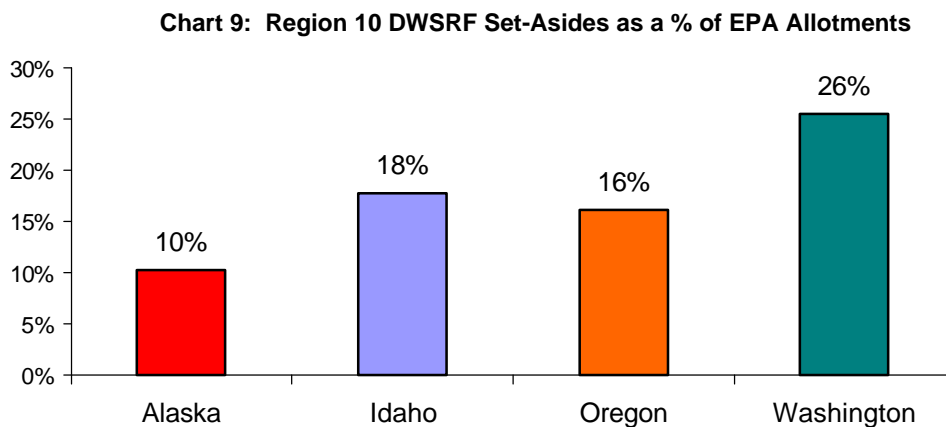
Washington's DWSRF is jointly run by the Department of Health (DOH), and the Public Works Board, through the Department of Community, Trade and Economic Development (CTED). Washington has been extremely proactive in resolving early implementation challenges. As a result the program is a national leader in terms of number of loans to small systems, and loans to privately-owned systems; due in large part to their efforts to simplify the application process, and to make loan rates and terms more attractive. To date, the DWSRF program here has provided a total of 90 loans in the amount of \$61 million, or 38% of the Region 10 total loan volume. One such project is described below:



The City of Aberdeen received a DWSRF loan of \$2,060,000 to construct a filtration plant to comply with the requirements of the Surface Water Treatment Rule (SWTR). Pictured above are the membrane filtration plant exterior (left) and the plant interior (right).

DWSRF Set-Asides

As discussed briefly in the Introduction, the legislation enabling the DWSRF program allows states, at their discretion, to use grant money for specific targeted activities, or “set-asides.” The DWSRF set-asides are an important funding resource for states in meeting SDWA requirements. Prior to the DWSRF, Federal assistance to support state drinking water programs was provided primarily through Public Water System Supervision/Ground Water grants. Although as much as 31% of each capitalization grant can be used for set-aside activities, the trend nationwide has been for states to take less than 20%. Chart 9 below show the cumulative percentage of set-asides taken by each Region 10 state to date.



Funds not claimed from a particular grant for set-aside use are by default rolled into the DWSRF Project Fund, which was discussed previously. The set-asides fall into four broad categories, each of which is described in detail below:

Administration Set-Aside (4% maximum)

A state may use up to 4% of its capitalization grant for administering the DWSRF program. Such costs allowed under this set-aside include DWSRF program start-up costs, continued management of the program, loan administration, development of an annual Intended Use Plan, priority project ranking, and grant application, and separate independent financial audits. Table III below shows the activity under this set-aside.

State	Amount Eligible to be Taken	Amount Taken	% of Eligible Amount Taken	Amount Expended	Available Balance
Alaska	\$ 1,975,244	\$ 1,975,244	100%	\$ 1,004,760	\$ 970,484
Idaho	\$ 1,459,996	\$ 1,459,996	100%	\$ 807,687	\$ 652,309
Oregon	\$ 2,414,937	\$ 2,414,937	100%	\$ 626,362	\$ 1,788,575
Washington	\$ 4,486,019	\$ 4,486,019	100%	\$ 1,906,454	\$ 2,579,565

Technical Assistance for Small Systems (2% maximum)

A state may use up to 2% of its capitalization grant to provide technical assistance to small systems. These are systems that serve less than 10,000 people. A state may use these funds to support a technical team, or may choose to contract for the technical assistance. Table IV shows the activity under this set-aside.

Table IV: 2% Technical Assistance for Small Systems Set-Aside					
State	Amount Eligible to be Taken	Amount Taken	% of Eligible Amount Taken	Amount Expended	Available Balance
Alaska	\$ 987,622	\$ 355,000	36%	\$ 101,039	\$ 253,961
Idaho	\$ 885,780	\$ 580,722	66%	\$ 361,740	\$ 218,982
Oregon	\$ 1,272,688	\$ 1,272,688	100%	\$ 192,582	\$ 1,080,106
Washington	\$ 2,243,009	\$ 2,243,009	100%	\$ 550,526	\$ 1,692,483

State Program Management (10% maximum)

Up to 10% of a capitalization grant can be used to supplement state program activities, such as administration of a PWSS program. Also eligible is the development and implementation of a capacity development strategy and operator certification program. It should be noted that this particular set-aside must be matched 1:1 with state funds; the other set-asides do not have a similar matching requirement. Table V below shows the dollar amount of activity under this set-aside.

Table V: 10% Stage Program Management Set-Aside					
State	Amount Eligible to be Taken	Amount Taken	% of Eligible Amount Taken	Amount Expended	Available Balance
Alaska	\$ 4,938,110	\$ 0	0%	\$ 0	\$ 0
Idaho	\$ 3,649,990	\$ 1,628,793	45%	\$ 99,171	\$ 1,529,622
Oregon	\$ 6,363,440	\$ 1,815,628	29%	\$ 160,884	\$ 1,654,744
Washington	\$ 11,225,330	\$ 11,215,047	100%	\$ 3,097,276	\$ 8,117,771

Local Assistance (15% maximum)

A maximum of 15% of the state's capitalization grant can be used to support such activities as: land acquisition for source water protection purposes; voluntary source water quality protection measures; delineation and assessment of source water protection areas; implementation of wellhead protection programs; and assistance to public water systems for capacity development purposes. Table VI shows the financial activity that has occurred under this set-aside.

Table VI: 15% Local Assistance to State Programs Set-Aside					
State	Amount Eligible to be Taken	Amount Taken	% of Eligible Amount Taken	Amount Expended	Available Balance
Alaska	\$ 7,407,165	\$ 2,771,947	37%	\$ 729,829	\$ 2,042,118
Idaho	\$ 5,474,985	\$ 4,179,418	76%	\$ 2,128,498	\$ 2,050,920
Oregon	\$ 9,545,160	\$ 4,766,795	50%	\$ 1,534,593	\$ 3,232,202
Washington	\$ 16,837,995	\$ 10,757,050	64%	\$ 3,301,525	\$ 7,455,525

Challenges and Solutions

Implementation of any new Federal program cannot occur without pitfalls, and Region 10 states have experienced their share. But in general the state DWSRF program staff have been quick to adapt. Chief among these challenges has been the issue of the pace of loans. Each state to some extent has experienced problems in putting the Fund dollars to their designated use as drinking water infrastructure loans. For one thing, a great many communities would prefer to receive grant funding for their project than a loan that they have to repay. Another factor is that there are multiple other competing funding sources. And even when they were willing to shoulder the responsibility of taking on a DWSRF loan, often the loan process was so cumbersome, or the Federal requirements appeared so onerous, many prospective applicants gave up.

On the grant vs. loan issue, the DWSRF program in fact does permit partial principal forgiveness of a loan to a community, based on certain disadvantaged criteria. For the most part, however, Region 10 states have tried to make loan rates as low as possible to lessen the repayment burden for communities, without taking away from the revolving nature of the Fund by providing principal forgiveness (i.e., grants).

The fact that other funding sources “compete” for the same prospective market has lead to many DWSRF programs working cooperatively with other state or Federal infrastructure funding resources to determine which communities would benefit most from a certain source of funding. This generally benefits the communities, by not having to approach each funding agency separately, as well as serves to further stretch the funds available for infrastructure financing.

A prime illustration of a very positive solution to the third challenge, a difficult loan process, is Washington’s DWSRF. Staff learned from their early experiences that many applicants, who initially seemed eager to borrow DWSRF funds, were turned off by the difficult loan process. The state program streamlined their process, developed a workshop where they guide applicants through the application process, and have been rewarded by becoming one of the leading DWSRF programs in the nation.

Program Future

Project loan funds are starting to revolve with loan repayments being used to make new loans. The set-asides are beginning to be tapped more fully as states rely more heavily on this source of funding for their drinking water programs. More water systems, in particular privately owned public water systems, will request infrastructure funding to meet requirements of the SDWA. The states as well as the Region will need to be especially vigilant to ensure that funds are used wisely, for eligible purposes, and maintained for reuse well into the future. Most important, however, to the success of the DWSRF in Region 10 is the constant recognition of our state partners to whom this program has been delegated and without whom this program would be impossible.